

# Financial Results

Fiscal 2020 brought new challenges to MidMichigan Health as we were faced not only with the impact of the global COVID-19 pandemic, but a flood as well. The governor's "Stay Home, Stay Safe" executive order, as well as temporarily stopping non-essential medical procedures, significantly impacted overall patient volumes in the last quarter of the fiscal year. MidMichigan Health recognized \$31.4 million of CARES Act relief funds which mitigated the financial impact of the pandemic and helped us to maintain operating performance for fiscal 2020 at a level just slightly above prior year performance. MidMichigan Health's financial condition remains very strong and has helped us to face head on the challenges encountered in fiscal 2020. This strength results from the underlying conservative principles we use to manage our assets and liabilities.

These principles include:

- Strong Liquidity:** We have over \$690 million in investments at June 30, 2020, or the equivalent of approximately 290 Days Cash On Hand. We remain significantly above our target, meaning we can withstand the many uncertainties that we face in the healthcare industry.
- Investment in Facilities and Technology:** In fiscal 2020, we continued construction of the of the Cardiovascular Regional Referral Center in Midland, investing an additional \$10 million in fiscal 2020. By the end of the project in fiscal 2021, a total of \$63 million is expected to be invested. In Alpena over \$8 million was invested in the new Patient Tower, which is expected to be complete in fiscal 2022. This project investment will be \$63 million when complete. In West Branch, over \$2 million was invested to implement the EPIC electronic health record system.
- Net Revenue Reserves:** We continue to be appropriately conservative in how we record net patient care revenue and maintain appropriate reserves for changes in estimates with respect to billing and third-party payor audits.
- Conservative Funding of Our Pension Plan:** We have continued to fund our pension plans in excess of our requirements, contributing approximately \$30 million to the plans in fiscal 2020. The decrease in discount rate in fiscal 2020 negatively impacted our balance sheet. We will continue to contribute to the plans to maintain appropriate funded levels.
- Strong Capital Structure:** Our debt-to-capitalization ratio of 21.4% as of June 30, 2020 continues to be lower than most organizations our size.

2020 (in millions) 2019 (in millions)

	2020 (in millions)	2019 (in millions)
<b>Revenue (Amount We Charge for Our Services)</b>		
For Patient Care and Other	\$2,381	\$2,333
Revenue Provisions	(1,381)	(1,374)
<b>Total Operating Revenue (Amount We Receive from the Fees We Charge)</b>	<u>1,000</u>	<u>959</u>
<b>Expenses (What It Costs to Provide Services to Our Patients)</b>		
Provide Compensation and Benefits to Our Employees	524	497
Pay Supplies, Insurance, Utilities and Other Services	392	379
Invest in Facilities and Equipment (Depreciation and Interest)	<u>58</u>	<u>59</u>
<b>Ongoing Cost of Providing Services to Our Patients</b>	<u>974</u>	<u>935</u>
<b>Operating Income From Our Core Operations (Amount Left After Paying Expenses)</b>	<b>26</b>	<b>24</b>
In Addition, We Received Interest Income and Realized (Losses) or Gains on Investments	(5)	9
<b>Funds Available for Reinvesting in Programs, Equipment and Facilities</b>	<b>21</b>	<b>33</b>
Other Net Periodic Retirement Income	6	4
Unrealized Market Adjustments for Investments	<u>9</u>	<u>27</u>
<b>TOTAL INCOME</b>	<b><u>\$36</u></b>	<b><u>\$64</u></b>

2020 (in millions)

<b>Charity Care: Contributions to Our Communities' Health</b>	
Charity Care at Cost	\$14
Cost of Unreimbursed Medicare, Medicaid, and other public programs	65
Cost of Price Concessions	<u>6</u>
<b>Total Cost of Uncompensated Care</b>	<b>85</b>
Cost of Community Benefit	<u>7</u>
<b>Total Contributions to Our Communities' Health</b>	<b><u>\$92</u></b>

# Financial Results

Continued

In fiscal 2020, net patient service revenue started out very strong but ended the year at the same level as the prior year. This was driven by the impact of COVID-19 on patient volumes and the cancellation of elective services, which resulted in an overall downturn in all volumes and revenues for the last quarter. This was partially offset by the recognition of federal CARES Act relief funds of \$31.4 million which brought total operating income over prior year levels.

Fiscal 2020 operating results included the following significant expense-related items:

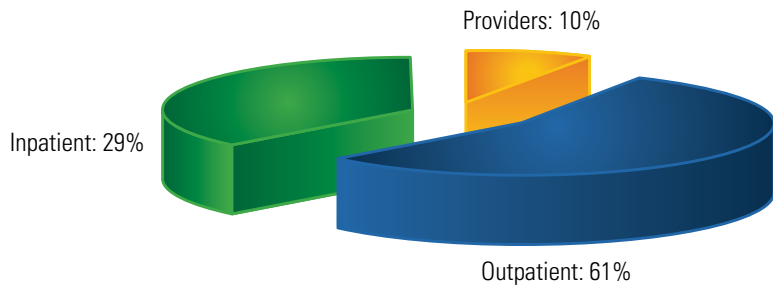
- **Impact of increased compensation related to the increase in the health system's minimum wage, and gifted paid time off related to COVID:** \$27.2 million (compensation and related benefits);
- **Impact of higher patient-related supplies, including pharmaceutical expenses and increased cost of personal protective equipment and other supplies related to COVID:** \$8.6 million; and
- **Expenses related to the annual distribution to the University of Michigan Health System affiliation:** \$4.9 million

Fiscal 2020 included the following significant, non-recurring item:

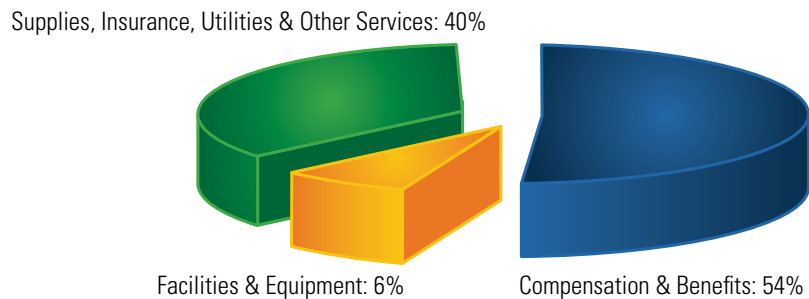
- **Recognition of \$31.4 million of CARES Act relief funds related to COVID-19 that favorably impacted our financial results**

Overall, MidMichigan Health reported a Total Income of approximately \$36 million, which includes \$9 million of unrealized investment return as well as the one-time item listed above. As a not-for-profit, we reinvest our "Total Income" back into our communities to fund capital improvements, improve patient care, invest in our employees, and implement technology. This allows us to continue to provide excellent health services to the people in our communities and fulfill our purpose of "Creating Healthy Communities – Together".

## Where We Receive Our Funds



## How We Put Our Funds to Work



## Capital Investment

(Money We Reinvest in Our Facilities, Technology and Equipment)

(in millions)

